

WOOLS OF NEW ZEALAND LIMITED
CONSOLIDATED ANNUAL REPORT
30 JUNE 2020

Wools of New Zealand Limited

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Wools of New Zealand Limited

Directory

30 June 2020

Directors

Directors holding office during the financial year were:

CRN Hickson

IC Marshall

RR Smith

J Parsons (appointed 18 November 2019)

LMJ Griffiths (resigned 25 February 2020)

MP Shadbolt (resigned 26 June 2020)

Registered Office

c/- Buddle Findlay

83 Victoria Street

Christchurch 8013

Independent Auditor

KPMG

Level 5, 79 Cashel Street

Christchurch 8013

Wools of New Zealand Limited

Directors Report

30 June 2020

The Directors are pleased to present their report for the year ended 30 June 2020.

PRINCIPAL ACTIVITY

The principal activity of the Wools of New Zealand Limited (Company) Group is the provision of logistics, sales and marketing of New Zealand strong wool both internationally and locally on behalf of grower shareholders and other suppliers.

EARNINGS FOR THE YEAR AND DIVIDENDS

Total revenue for the year was \$8.9m (2019: \$11.5m). The loss before tax was \$0.9m (2019: Profit before tax of \$0.3m). The loss after taxation and attributable to the shareholders of the Company amounted to \$1m (2019: Profit of \$0.1m). The total comprehensive loss attributable to shareholders of the Company amounted to \$1m (2019: Profit of \$0.1m).

No dividends have been declared or paid for the current year (2019: nil).

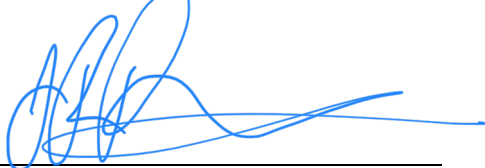
AUDITOR

KPMG continued as the auditor during the financial year.

FINANCIAL STATEMENTS

The 2020 financial statements are attached to this report.

For and on behalf of the Board:



Director



Director

Dated: 27 October 2020

Wools of New Zealand Limited
Consolidated Statement of Comprehensive Income
For the year ended 30 June 2020

	Note	2020 \$	2019 \$
Revenue	1	8,938,658	11,525,095
Cost of Sales	2	(6,893,303)	(8,452,396)
Gross Profit		2,045,355	3,072,699
Expenses			
Operating Expenses	3	1,635,155	1,886,669
Administration Expenses	4	1,203,249	1,286,936
Finance (Income)/Expenses	5	108,015	(424,096)
Allowance for Doubtful Debts	8	-	32,421
Total Expenses		2,946,419	2,781,930
PROFIT BEFORE TAX		(901,064)	290,769
Income Tax	6	(82,141)	(197,919)
PROFIT FOR THE YEAR AFTER TAX ATTRIBUTABLE TO SHAREHOLDERS		(983,205)	92,850
Other Comprehensive Income:			
Translation of Foreign Operations (net of tax)		10,225	(24,092)
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO SHAREHOLDERS		(972,980)	68,758

Wools of New Zealand Limited

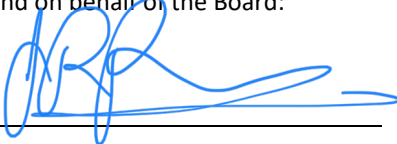
Consolidated Statement of Financial Position As at 30 June 2020

	Note	2020 \$	2019 \$
Current Assets			
Cash and Cash Equivalents	7	2,438,338	1,397,091
Trade and Other Receivables	8	555,463	1,134,561
Prepayments		75,433	50,316
Wool Inventory		4,627,256	4,326,500
Derivative Financial Assets	13	146,953	100,956
Total Current Assets		7,843,443	7,009,424
Non Current Assets			
Property, Plant and Equipment		11,752	13,781
Right of Use Asset	16	213,165	-
Intangible Assets	12	744,459	1,059,118
Deferred Tax Asset	6	-	82,141
Derivative Financial Assets	13	4,480	130,283
Related Party Advances	9	50,098	59,549
Total Non Current Assets		1,023,954	1,344,872
Total Assets		8,867,397	8,354,296
Current Liabilities			
Trade and Other Payables		3,866,710	2,607,088
Lease Liability	16	54,175	-
Taxation Payable	6	25,678	17,098
Total Current Liabilities		3,946,563	2,624,186
Non Current Liabilities			
Lease Liability	16	163,704	-
Total Non Current Liabilities		163,704	-
Total Liabilities		4,110,267	2,624,186
Net Assets		4,757,130	5,730,110
Equity			
Share Capital	11	7,997,021	7,997,021
Accumulated Losses		(3,287,151)	(2,303,946)
Revaluation Reserve	11	-	-
Foreign Currency Translation Reserve	11	47,260	37,035
Total Equity		4,757,130	5,730,110

Represented by:

Equity

For and on behalf of the Board:



Director

Dated: 27 October 2020



Director

Wools of New Zealand Limited
Consolidated Statement of Changes in Equity
For the year ended 30 June 2020

	Share Capital \$	Foreign Currency Translation Reserve \$	Revaluation Reserve \$	Accumulated Losses \$	Total Attributable to Equity Holders of Parent \$
30 June 2018	7,997,021	61,127	-	(2,396,796)	5,661,352
Profit after tax for the year	-	-	-	92,850	92,850
Other Comprehensive Income					
Translation of foreign operations	-	(24,092)	-	-	(24,092)
Total Comprehensive Income	-	(24,092)	-	92,850	68,758
30 June 2019	7,997,021	37,035	-	(2,303,946)	5,730,110
30 June 2019	7,997,021	37,035	-	(2,303,946)	5,730,110
Loss after tax for the year	-	-	-	(983,205)	(983,205)
Movement in reserve					-
Other Comprehensive Income					-
Translation of foreign operations	-	10,225	-	-	10,225
Total Comprehensive Income	-	10,225	-	(983,205)	(972,980)
30 June 2020	7,997,021	47,260	-	(3,287,151)	4,757,130

Wools of New Zealand Limited
Consolidated Statement of Cash Flows
For the year ended 30 June 2020

	Note	2020 \$	2019 \$
Cash Flows from Operating Activities			
<i>Cash was provided from:</i>			
Receipts from Customers		17,324,715	23,325,640
Tax Refunded		8,580	31,692
Interest Received		4,236	33,906
		17,337,531	23,391,238
<i>Cash was disbursed to:</i>			
Payments to Suppliers and Employees		(16,343,364)	(23,621,763)
Rent Paid		(12,307)	-
Interest Paid		(12,939)	(7,278)
		(16,368,610)	(23,629,041)
Net Cash Inflows/(Outflows) from Operating Activities		968,921	(237,803)
Cash Flows from Investing Activities			
<i>Cash was disbursed to:</i>			
Property, Plant and Equipment		(4,803)	(11,466)
Intangibles		(2,540)	(81,869)
		(7,343)	(93,335)
Net Cash Outflows from Investing Activities		(7,343)	(93,335)
Cash Flows from Financing Activities			
<i>Cash was disbursed to:</i>			
Related Party Advances		(137)	(13,157)
Repayment of Bank Borrowings		-	(265,296)
		(137)	(278,453)
Net Cash Outflows from Financing Activities		(137)	(754,734)
Net Increase/(Decrease) in Cash and Cash Equivalents		961,441	(609,591)
Net Foreign Exchange Movements		79,806	(469,608)
Cash and Cash Equivalents at the Beginning of Year		1,397,091	2,476,290
Cash and Cash Equivalents at the End of the Year	7	2,438,338	1,397,091
Profit/(Loss) for the Year		(983,205)	92,850
<i>Adjustments for non cash items:</i>			
Depreciation and Amortisation		133,696	115,807
Impairment		387,743	331,442
Loss on Disposal/Sale of Fixed Assets		179	921
Lease Liability		(12,307)	-
Lease Interest		2,810	-
Allowance for Doubtful Debts		(181,144)	(388,704)
Net Foreign Exchange Loss/(Gain)		10,225	(24,092)
Movement in Deferred Tax		82,141	171,062
		(559,862)	299,286
<i>Movement in working capital</i>			
Trade and Other Receivables		735,125	889,547
Inventories		(474,545)	(2,099,605)
Taxation		8,580	58,550
Trade and Other Payables		1,259,623	614,419
Net Cash Inflows/(Outflows) from Operating Activities		968,921	(237,803)

Wools of New Zealand Limited

Notes to the Consolidated Financial Statements

30 June 2020

Reporting Entity and Statutory Base

Wools of New Zealand Limited (the Company) is a profit-oriented company domiciled in New Zealand and registered under the Companies Act 1993. The Company has issued shares and is an FMC Reporting Entity under the Financial Markets Conduct Act 2013 and the financial statements have been prepared in accordance with that Act and the Financial Reporting Act 2013.

These consolidated financial statements comprise of the controlling entity, the Company, its subsidiary and associates including Wools of New Zealand (UK) Limited and other non-trading entities (the Group). The Group's principal activity is sales, logistics and marketing of New Zealand strong wool both internationally and locally on behalf of Wools of New Zealand grower shareholders and other suppliers.

Basis of Preparation

The consolidated financial statements for the year ended 30 June 2020 have been prepared in accordance with New Zealand generally accepted accounting practice (NZ GAAP). They comply with New Zealand Equivalents to the International Financial Reporting Standards (NZ IFRS) and other financial reporting standards as appropriate for Tier 1 profit entities. The financial statements also comply with the International Financial Reporting Standards (IFRS).

The financial statements were authorised for issue by the directors on 27 October 2020.

Basis of Measurement

The financial statements have been prepared on an historical cost basis except for derivatives which are recognised at fair value. The information is presented in New Zealand dollars, rounded to the nearest dollar, which is the Group's functional and presentation currency.

Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements have been consistently applied to all periods presented. Where necessary, certain comparative numbers have been restated to be comparable with the current year.

Accounting Estimates and Judgements

The preparation of these consolidated financial statements to conform with NZ GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. These are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Subsequent actual results may differ from these estimates.

Information about critical judgements in applying accounting policies that have the most significant impact on the financial statements is included in notes 8, 12 and 16.

Equipment

Items of equipment are initially recognised at cost, then subsequently at cost less accumulated depreciation. The following rates are applied for all periods using either the straight line or diminishing value method:

Equipment	
Furniture and Fittings	10 – 67%
IT and Communications	25 – 67%

Wools of New Zealand Limited
Notes to the Consolidated Financial Statements
30 June 2020

Notes to the Consolidated Financial Statements

The notes include information which is required to understand the consolidated financial statements and is material and relevant to the operations, financial position and performance of the Group.

1. Revenue

	2020	2019
	\$	\$
Export Wool Sales	6,698,517	8,356,768
Direct to Scour Wool Sales	7,832,078	11,299,702
Direct to Scour Selling Fee	2,055,074	2,254,311
Wool Market Development Commitment	12,965	326,798
Royalties and Wool Sales Commissions	71,350	116,500
Other Income	100,752	470,718
Total Gross Revenue	16,770,736	22,824,797
Less: Direct to Scour Wool Purchases	(7,832,078)	(11,299,702)
Total Net Revenue	8,938,658	11,525,095

2. Cost of Sales

	2020	2019
	\$	\$
Export Wool Purchases	6,240,753	7,648,710
Direct to Scour Charges	651,036	786,213
Brand Partner and Other Expenses	1,514	17,473
Total Cost of Sales	6,893,303	8,452,396

Accounting Policies

Revenue

Revenue from Wool and Commercial Product Sales is presented net of sales tax, discounts and rebates. Revenue is recognised when the performance obligation is satisfied and control of the promised good is transferred to the customer as dictated by the applicable contract.

For the Direct to Scour transactions where the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of selling fees which are accounted for on an accrual basis.

Royalties and Wool Sales Commissions are recognised on an accrual basis.

Wools of New Zealand Limited
Notes to the Consolidated Financial Statements
30 June 2020

Accounting Policy

Inventories

Inventories are initially recognised at cost on a first in, first out basis, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less estimated costs of conversion and costs to sell.

Market Conditions

Inventories have been assessed for their carrying values at reporting date. Any inventories not subject to a back to back sales contract has been recognised at current market values. Any impairment has been recorded in the Statement of Profit or Loss.

3. Operating Expenses include:

	2020	2019
	\$	\$
Employment Costs	1,293,584	1,396,589
Travel, Marketing and Other Costs	312,244	376,377
Contractor Expenses	29,327	113,703

During the year the New Zealand Government introduced a wage subsidy to support eligible businesses in light of the COVID-19 pandemic. The wage subsidy covers a 12 week period from the application date, and businesses are required to pass the wage subsidy onto their employees. The company applied for the wage subsidy and this has been offset against employment costs included in operating expenses.

4. Administration Expenses include:

	2020	2019
	\$	\$
Directors' Fees	194,750	195,000
Rental and Operating Lease Costs	85,917	103,001
Depreciation	20,862	6,047
Amortisation of Intangible Assets	112,834	109,761
Impairment of Intangible Assets	173,787	94,574
Impairment of Inventory	204,368	-
Impairment of Related Party Advance	9,588	236,868
Audit Fees - KPMG	31,884	33,000
Legal Expenses	21,383	55,512

5. Interest and Finance Costs

	2020	2019
	\$	\$
Foreign Exchange Income/(Expense) comprises:		
Net (Loss)/Gain on Derivative Financial Instruments	(79,806)	469,608
Net (Loss) on Foreign Denominated Items	(16,696)	(72,140)
Foreign Exchange (Expense)/Income	(96,501)	397,468
Interest Received from Short Term Deposits	4,236	33,906
Interest on Loans and Borrowings	(15,750)	(7,278)
Total Finance (Expenses)/Income	(108,015)	424,096

Wools of New Zealand Limited
Notes to the Consolidated Financial Statements
30 June 2020

Accounting Policies

Finance Income and Expenses

Finance income and expenses are recognised on an accrual basis. Borrowing costs that are not directly attributable to the acquisition or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign Currency

Transactions in a currency other than the currency of the primary economic environment in which they operate (functional currency) are recorded at the exchange rates ruling when the transactions occur. Foreign currency for future transactions are fair valued at balance date, with differences recognised immediately in profit or loss.

6. Income Tax Expense

	2020	2019
	\$	\$
Profit before Tax	(901,064)	290,769
Tax Losses Utilised	-	(35,051)
	<u>(901,064)</u>	<u>255,718</u>
<i>Permanent differences</i>		
Amortisation of Intangibles	15,000	14,339
Impairment of Related Party Advance	9,588	236,838
Non-deductible Expenses	20,335	43,469
Total permanent differences	<u>44,923</u>	<u>294,676</u>
<i>Timing differences</i>		
Employee Benefits	(48,788)	36,477
Impairment of Intangible Assets	378,155	94,574
Insurance accrual	152,729	(152,729)
Allowance for Doubtful Debts	(181,144)	(388,704)
Deferred Tax Assets Not Recognised	(300,952)	(200,553)
Total timing differences	<u>-</u>	<u>(610,935)</u>
Estimated (deficit) for taxation purposes	(856,141)	(60,541)
Opening Balance	17,098	-
Current Taxation	-	26,857
Resident Withholding Tax	8,580	(9,759)
Taxation Payable	25,678	17,098
Taxation Charge		
Current tax	-	26,857
Deferred tax	82,141	171,062
Income tax benefit as per Consolidated Statement of Profit or Loss and Other Comprehensive Income	82,141	197,919
Deferred Taxation		
Deferred Tax at Beginning of Year	(82,141)	253,203
Income Tax Benefit	82,141	(171,062)
Deferred tax asset as per Consolidated Statement of Financial Position	<u>-</u>	<u>82,141</u>

Wools of New Zealand Limited
Notes to the Consolidated Financial Statements
30 June 2020

The deferred tax asset has been derecognised as it was not probable that taxable profit will be available against which the difference can be utilised within the next 12 months. Tax losses totalling \$610,163 (2019: \$47,602) are available to offset against future taxable profits of the company in which the loss arose.

Imputation Credit Account

Imputation taxes at reporting date of \$143,316 (2019: \$142,659) are available for future use to the Group.

Accounting Policies

Tax

The Group is subject to income tax in both the United Kingdom and New Zealand jurisdictions and significant judgement is required in determining the accrual for income taxes. During the ordinary course of business, there are transactions and calculations for which the ultimate tax determination may be uncertain. As a result, each company recognises tax liabilities based on estimates of whether additional taxes and interest will be due. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact income tax expense in the period in which such determination is made.

Income Tax

Tax expense comprises current and deferred tax. Tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred Taxation

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability differs from its tax base.

Deferred tax assets are reviewed at each reporting date and recognised to the extent it is probable that taxable profit will be available against which the difference can be utilised. The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered).

Wools of New Zealand Limited
Notes to the Consolidated Financial Statements
30 June 2020

7. Cash, Cash Equivalents and Short-Term Deposits

<i>Cash and Cash Equivalents consist of the following:</i>	2020	2019
	\$	\$
New Zealand Dollar Accounts	2,412,458	1,381,121
United States Dollar Accounts	1,702	754
Great British Pound Accounts	23,334	12,919
Cash in Hand	843	2,297
	2,438,338	1,397,091

Interest is received at variable rates up to 0.3%, calculated on a daily basis. On call and short-term deposits are held by ANZ Banking Group Limited and have varying terms less than 180 days. The Company has an overdraft facility of \$100,000 secured by way of a General Security Agreement held by ANZ Banking Group Limited. Interest is incurred at 5.85% per annum up to this limit. Refer to note 10 regarding the trade facility available.

Accounting Policy

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and for the purpose of cash flows, bank overdrafts.

8. Trade and Other Receivables

	2020	2019
	\$	\$
Trade Receivables on Wool Trading	462,109	1,162,932
Wool Marketing Development Commitment	37,348	43,237
Gross Trade Receivables	499,457	1,206,169
Allowance for Doubtful Debts	(37,347)	(218,491)
Net Trade Receivables	462,110	987,678
Other Receivables	93,353	146,883
Total Trade and Other Receivables	555,463	1,134,561
Analysis of movements in allowance for doubtful debts		
Opening balance	218,491	607,195
Written off	(175,254)	(421,125)
Movement in provision	(5,890)	32,421
Closing Balance	37,347	218,491
Age of Receivables		
Current or not yet due	459,399	785,145
Overdue 30 days	2,307	273,315
Overdue 60 days	-	95,458
Older	37,752	52,251
Gross Trade Receivables	499,458	1,206,169

Wools of New Zealand Limited
Notes to the Consolidated Financial Statements
30 June 2020

Accounting Policy

Loans and Receivables

Trade receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less allowance for impairment.

Trade receivables are non-interest bearing and are generally 30 day terms. Trade receivables post due date are assessed for impairment. The Group in accordance with its constitution can call any amount of the WMDC balance that remains unpaid and the Board may at its discretion give notice to forfeit the shares when the WMDC is unpaid and it can recover interest and expenditure arising for this action.

Impairment allowances are recognised when there is objective evidence that the Group will be unable to collect all of the amounts due under the terms receivable, the amount of such an allowance being the difference between the net carrying amount and the present value of the future expected cash flows. For trade receivables, which are reported net, such allowances are recorded in a separate allowance account with the movement being included in profit or loss. On assessment that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated allowance.

9. Related Party Advances and Investments

	2020	2019
	\$	\$
Advances		
Natural Fibre Exchange Limited	49,900	49,900
Carpet Development International Limited	-	9,451
Total Advances	<u>49,900</u>	<u>59,351</u>
Investments		
Natural Fibre Exchange Limited	100	100
Carpet Development International Limited	98	98
Total Investments	<u>198</u>	<u>198</u>
	<u>50,098</u>	<u>59,549</u>

The Company has the following investments:

	Country	Balance date	Ownership interest	
			2020	2019
Associates				
Natural Fibre Exchange Limited	NZ	30-Jun	20.0%	40.0%
Carpet Development International Limited	UK	30-Jun	50.0%	50.0%

For the current financial year, investments in associates have been recorded at cost with no share of profit or loss recognised in the statement of profit or loss as it is not significant.

Accounting Policy

Investments in Associates

Associates are those entities in which the Company has significant influence, being the ability to participate in however not control the financial and operating decisions of the entity.

Associates are accounted for using the equity method of accounting where the investment is recorded at cost plus its share of any profit or loss during the ownership period. Any dividends received are deducted from the investment value.

If the Company's share of losses exceeds its interest in the associate, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that WNZL has an obligation or has made payments on behalf of the entity.

10. Loans and Borrowings

The total outstanding loan at balance date on the trade facility was \$Nil (2019: \$Nil). The facility has a limit of \$500,000 and is secured over specific accounts receivable relating to the Group's wool trading activities (2019: \$764,542). The facility is repayable within 180 days. Interest is incurred at "Cost of Funds" (as determined by the bank) plus 2% margin per annum. The facility is subject to review on 30 November each year.

Accounting Policy

Liabilities at Amortised Cost

The Group initially recognises debt securities issued on the date that they are originated. All other financial liabilities are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument. The Group de-recognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Other financial liabilities comprise loans and borrowings, bank overdrafts and trade and other payables.

The Group classifies non-derivative financial liabilities into other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

11. Capital and Reserves

There are 18,670,956 ordinary shares (2019: 18,670,956 ordinary shares) in issue. During the year the Company issued no new shares. Shares are ordinary fully paid shares with no par value, carry equal voting rights and share equally in any profit on the winding up of the Group.

Capital Management

Accounting Policy

Share Capital

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's ordinary shares are classified as equity instruments. Any costs associated with raising of capital are offset against share capital.

The Group's objectives when maintaining capital are to ensure the Group continues as a going concern as well as to provide an adequate return to its shareholders that by pricing products and services commensurately with the level of risk. The Board has no plans to pay a dividend until such time as the Group accumulates appropriate surpluses. There have been no material changes to the Group's management of capital during the period.

Foreign Currency Translation Reserve

Exchange differences relating to the translation from the functional currency of the foreign subsidiary into New Zealand dollars are brought to account by entries to the foreign currency translation reserve. When a foreign operation is disposed of, such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

Wools of New Zealand Limited
Notes to the Consolidated Financial Statements
30 June 2020

12. Intangible Assets

	Brands	Trademarks	Licence Fee	Websites	Total
2019					
Opening Balance	637,612	96,052	406,479	41,441	1,181,584
Additions	-	7,362	50,000	24,507	81,869
Impairment	-	-	(94,574)	-	(94,574)
Amortisation of Intangible Assets	-	(14,339)	(78,175)	(17,247)	(109,761)
Closing Balance	637,612	89,075	283,730	48,701	1,059,118
2020					
Opening Balance	637,612	89,075	283,730	48,701	1,059,118
Additions	-	2,540	-	-	2,540
Impairment	-	-	(204,365)	-	(204,365)
Amortisation of Intangible Assets	-	(15,000)	(79,365)	(18,469)	(112,834)
Closing Balance	637,612	76,615	-	30,232	744,459

The Board has reviewed the useful life of the intangible assets held and the following determinations have been made:

Brands and Trademarks

The brands comprise Wools of New Zealand, Fernmark and Laneve and are considered to have an indefinite useful life which can be renewed in perpetuity and support the principal activity of the Group. The implied historical and estimated future benefit of cash flow premiums received from partners are used to support the carrying value, which is currently recognised at cost. Trademarks are deemed to have a finite life of between 4 and 10 years, and are amortised on a straight line basis.

Licence Fee

The Group holds a License Agreement for the exclusive rights to Spectra White Scouring Technology. The License is for a period of 9 years and was being amortised over life of the agreement on a straight line basis. Each year the asset is also assessed for its carrying value to recognise if there is any impairment. Due to current market conditions and wool prices the Board has the view that there is no longer value and the asset has been impaired fully.

Websites

These websites have a definite useful life and are amortised on a straight-line basis. The Company continues to upgrade these on an on-going basis for maintenance. Enhancement is anticipated in the future to ensure these sites are not impaired.

Accounting Policies

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation expense is recognised in profit or loss.

Intangible assets and impairments with indefinite useful lives are not amortised, but are tested for impairment annually. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is de-recognised.

Impairment of Non-Financial Assets (excluding Inventories and Deferred Tax Assets)

Non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Impairment losses are included in profit or loss, except to the extent they reverse gains previously recognised in other comprehensive income. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is only reversed to the extent that the carrying value of the asset does not exceed the carrying value that the asset would have had, net of depreciation or amortisation, if no impairment loss had been

13. Derivative Financial Instruments

	2020	2019
	\$	\$
<i>Derivative Financial Assets</i>		
Derivatives not designated as hedging instruments		
Forward foreign exchange contracts	151,433	231,239
Total Derivative Financial Assets	151,433	231,239

Accounting Policy

Foreign Exchange Derivatives

The Group enters into various derivative financial instruments for the purpose of reducing its exposure to fluctuations in foreign exchange rates. These are recognised initially at fair value and attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for through profit or loss.

14. Risk Management

The Board has overall responsibility through management for the determination of risk management objectives and policies and for designing operating processes to effectively manage identified risks. The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. The Group is exposed through its operations to the following financial risks:

- Credit risk
- Foreign exchange risk
- Price risk
- Liquidity risk
- Interest rate risk.

Credit Risk

Credit risk is the risk of financial loss due to the failure of a counterparty to a financial instrument to meet its contractual obligations. The Group is exposed to credit risk in respect of cash, trade and other receivables, short term deposits and derivative financial assets to the extent of the carrying value of these assets at year end. It is Group policy to assess the credit risk of new customers before entering contracts, and where appropriate, uses insurance products to manage these risks.

The Group places cash and short-term deposits with excellent quality counterparties. All such investments are held with counterparties having a minimum Standard and Poor's credit rating of AA-. Included with Note 8 is a summary of the age of receivables at year end.

Foreign Exchange Risk

Foreign exchange risk arises when individual Group entities enter into transactions denominated in a currency other than the functional currency. The Group's policy is, where possible, to allow group entities to settle liabilities denominated in their functional currency (Sterling, Euro, and US dollar) with cash generated from their own operations in that currency.

Some wool sales contracts are denominated in currencies other than New Zealand dollars. The Group has entered into a number of foreign currency forward contracts relating to wool trading. Foreign currency forward contracts have settlement dates which are current and non-current (2019: current and non-current).

Wools of New Zealand Limited
Notes to the Consolidated Financial Statements
30 June 2020

At reporting date the exposure to foreign currencies is as follows (NZD equivalent):

2020	GBP	EURO	USD
Cash and Cash Equivalents	23,334	-	1,702
Trade and Other Receivables	93,057	128,564	69,130
Trade Payables	73,405	-	-
Foreign Currency Forward Exchange Contracts	8,632,565	1,599,587	152,756
2019	GBP	EURO	USD
Cash and Cash Equivalents	2,722	-	754
Trade and Other Receivables	517,213	98,152	-
Trade Payables	77,892	-	-
Foreign Currency Forward Exchange Contracts	11,862,547	746,300	74,273

Market Price Risk

Price risk is the risk of variability in returns due to movements in the market price of Wool. Wool is purchased to meet individual contracts and is sourced from a number of sources including shareholders and wool traders.

Liquidity Risk

Liquidity risk is the Group's ability to meet its financial obligations as they fall due. Management reviews the cash requirements on a regular basis to ensure there is sufficient cash available to meet its obligations to not only suppliers but also its obligations to provide funds to Group operations. The presentation of current and non-current items on the consolidated statement of financial position reflects the contractual settlement terms of assets and liabilities.

Interest Rate Risk

Interest rate risks is the risk of variability in returns to movements in market interest rates. Currently all loans and borrowings incur floating rates of interest and the Group does not enter into any interest rate derivatives to manage this interest rate. A change of 10 basis points in interest rates would have resulted in increase/(decrease) profit or loss by an insignificant amount based on the current loan balances.

15. Related Party Transactions

Transactions with Key Management Personnel

	2020	2019
	\$	\$
<i>Key management personnel compensation comprised:</i>		
Salaries and related benefits	434,994	612,117
Directors' Fees	194,750	195,000
	629,744	807,117

Some Directors own shares in the Company either in their own names or via entities controlled by them. The details of transactions between the Company and other entities that are classed as related entities are set out in the table below.

Wools of New Zealand Limited

Notes to and Forming Part of the Consolidated Financial Statements For the Year Ended 30 June 2020

Director of Wools of New Zealand Limited	Related Entity	Role in Related Entity	Nature of Transaction	Value		Balance owing	
				2020	2019	2020	2019
				\$	\$	\$	\$
N/A	Natural Fibre Exchange Limited	Service Provider/Corporate Governance	Selling Fees	46,729	74,550	-	-
			Administration Fees	35,548	35,400	3,393	3,393
			Recovery of Establishment Costs	-	-	-	10,162
N/A	Carpet Development International Limited	Carpet Sampling Services	Recovery of Costs	913	-	-	-
			Purchase of Samples	2,007	16,381	-	-
M P Shadbolt	Banks Peninsula Wool Growers Limited	Director / Shareholder	Levies	-	15,333	-	-
			Commission	18,431	30,736	-	-
			Wool Purchases	134,544	-	-	-
	M P Shadbolt	Wool Purchases	4,107	-	-	-	
C R N Hickson	Progressive Leathers Limited	Director	Fees	15,342	16,485	-	-
			Wool Purchases	12,283	29,530	-	-
	Anawai Partnership	Partner	Wool Purchases	962	979	-	-
J Parson	Ashgrove Limited	Director	Wool Purchases	14,232	-	-	-

Wools of New Zealand Limited

Notes to and Forming Part of the Consolidated Financial Statements

30 June 2020

16. Right of Use Asset

	2020	2019
	\$	\$
Property Lease		
Opening Balance	-	-
Additions	227,376	-
Depreciation charge for the year	(14,211)	-
	<u>213,165</u>	-

Finance Lease Commitments

As at 30 June 2020, the Group had the following lease commitments:

	Less than 1 Year	Between 2 to 5 Years	Closing Balance
Future Lease Commitments			
Lease payments	63,839	175,557	239,396
Interest on lease liability	(9,664)	(11,853)	(21,516)
	<u>54,175</u>	<u>163,704</u>	<u>217,880</u>

The group did not have any financial leases in the prior year.

Accounting Policy

IFRS 16 Adoption - Measurement and recognition of leases

For any new contracts entered on or after 1 July 2019, the Group considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset for a period in exchange for consideration.

To apply this definition the Group assesses whether the contract meets key evaluations which are:

- The contract contains an identified asset, identifiable in the contract or identified at the time the asset is made available to the Group.
- The Group has the right to obtain substantially all the economic benefits from use of the identified asset and has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is recognised at the amount equal to the lease liability. The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the end of the lease term. At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the Group's incremental borrowing rate. Lease payments included in the measurement of the lease liability are made up of fixed payments. Subsequent to initial measurement the lease liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in the fixed payments.

Wools of New Zealand Limited

Notes to and Forming Part of the Consolidated Financial Statements

30 June 2020

17. Adoption of New and Revised Standards and Standards Not Yet Effective

A number of new standards and interpretations are effective for the year ended 30 June 2020 and have been applied in preparing these financial statements:

- IFRS 9 *Financial Instruments* reduces the number of categories of financial assets and requires measurement to be at either at amortised cost or fair value. This has been adopted for the financial reporting period ending 30 June 2019 and the extent of the impact is minimal.
- IFRS 15 *Revenue from Contracts with Customers* has been adopted. The standard introduced a new revenue recognition model for contracts with customers. The impact has been minimal and no adjustment to prior period figures has been required.
- IFRS 16 *Leases* has been adopted for the financial reporting period ending 30 June 2020. This standard removes the classification of leases as either operating or finance leases

18. Subsequent Events

Subsequent events not requiring adjustment to these financial statements.

The Company is currently in discussion with another grower owned organisation about potentially aligning organisations. However, at reporting date any outcome of these discussions is not yet known and therefore can not be adequately predicted.

19. Covid-19

On 11 March 2020, the World Health Organisation declared a global pandemic as a result of the outbreak and spread of COVID-19. Following this, the New Zealand Government introduced an alert level system, which required only essential businesses to be open during alert level 4. Although Wools of New Zealand were deemed an essential business, the significant disruption to global businesses resulted in key customers of Wools of New Zealand deferring orders. This resulted in a reduction in revenue as demonstrated with note 1. Post balance date Wools of New Zealand have recommenced sales to these customers.

Due to the reduction in revenue Wools of New Zealand qualified for the initial Government wage subsidy which was received and utilised during the current financial year (refer Note 3). Subsequent to year end Wools of New Zealand qualified for the extended Government wage subsidy, receiving a further \$51,550.

Wools of New Zealand Limited
Statutory Information
30 June 2019

REMUNERATION OF DIRECTORS

The fee paid and payable to Directors during the year were:

	2020	2019
	\$	\$
CRN Hickson	28,500	30,000
IC Marshall (Chair of Audit Committee)	42,750	45,000
J Parsons (Chairperson from 23 June 2020)	16,000	-
LMJ Griffiths (Resigned 25 February 2020)	20,000	30,000
MP Shadbolt (Chair to 30 July 2019, resigned director 26 June 2020)	33,000	60,000
RR Smith (Chair from 30 July 2019 to 23 June 2020)	54,500	30,000
Total Directors' Fees	194,750	195,000

During the year M Shadbolt performed duties over and above normal governance duties of a Director. In consideration of this time and effort he was paid additional executive compensate of \$129,571 (2019: \$67,200) in addition to Director's Fees included in the above.

DEEDS OF INDEMNITY

Pursuant to section 162 of the Companies Act 1993 and the Constitution, Wools of New Zealand Limited has entered into insurance and indemnity agreements with the Directors of to indemnify them to the maximum extent permitted by law, against all liabilities which they may incur in the performance of their duties as Directors of any company within the Group. Insurance cover extends to Directors and Officers for the costs and expenses of successfully defending legal proceedings. Specifically excluded are penalties and fines which may be imposed for breaches of law and criminal actions. In accordance with commercial practice, the insurance contract prohibits further disclosure of the terms of the policy.

REMUNERATION OF EMPLOYEES

Grouped below, in accordance with section 211(1)(g) of the Companies Act 1993, are the number of employees, who are not directors, whose remuneration and benefits in their capacity as employees, exceeding \$100,000 in the financial year, were:

	Group	Group
	2020	2019
\$100,001 – 110,000	1	1
\$110,001 – 120,000	1	2
\$120,001 – 130,000	-	-
\$130,001 – 140,000	2	2
\$140,001 – 150,000	-	-
\$150,001 – 160,000	-	-
\$160,001 – 170,000	-	-
\$170,001 - 180,000	-	-
\$180,001 – 190,000	-	-
\$220,001 – 230,000	-	1



Independent Auditor's Report

To the shareholders of Wools of New Zealand Limited

Report on the audit of the consolidated financial statements

Opinion

In our opinion, the accompanying consolidated financial statements of Wools of New Zealand Limited (the 'company') and its subsidiaries (the 'Group') on pages 3 to 22:

- i. present fairly in all material respects the Group's financial position as at 30 June 2020 and its financial performance and cash flows for the year ended on that date; and
- ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying consolidated financial statements which comprise:

- the consolidated statement of financial position as at 30 June 2020;
- the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with Professional and Ethical Standard 1 International Code of Ethics for Assurance Practitioners (Including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the consolidated financial statements section of our report.

Other than in our capacity as auditor we have no relationship with, or interests in, the Group.



Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the consolidated financial statements as a whole. The materiality for the consolidated financial statements as a whole was set at \$100,000 determined with reference to a benchmark of Group Revenue. We chose the benchmark because, in our view, this is a key measure of the Group's performance and is also a stable basis.



Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the shareholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the consolidated financial statements as a whole and we do not express discrete opinions on separate elements of the consolidated financial statements

Key changes in the assessment of audit risks – COVID-19

The Covid-19 pandemic has created additional risks across the business, particularly in assessing the carrying value of intangible assets. All forward looking assumptions are inherently more uncertain. While the key audit matter “Carrying value of intangible assets”, detailed below, is unchanged from last year, the underlying audit risk has increased which impacted the extent of audit testing we conducted. We also draw attention to Note 19 of the consolidated financial statements which describes the impact of the COVID-19 on the business.

The key audit matter

How the matter was addressed in our audit

Facilitation of Wool Sales – Revenue recognition (\$8.9m refer note 1)

WONZ provides growers with access to markets for the sale of their wool. This is achieved either by:

- entering into contracts directly with the end customer and then procuring supply from multiple growers; or
- facilitating sale of grower’s wool via tender/auction.

This is considered a key audit matter given wool sales are the key determinant of the performance of WONZ and the judgement associated with the recognition of revenue as either gross or net (i.e. as either principle or agent).

The key procedures we performed included the following:

- assessing revenue recognition for consistency with the requirements of the NZ IFRS 15, including the determination of the nature as either principle or agent; and
- challenging the appropriateness of WONZ’s revenue recognition financial statement disclosures;

Our audit procedures did not identify any material errors with regard the recognition and presentation of sales revenue.

Carrying value of intangible assets (\$0.7m – refer note 12)

WONZ are focused on generating increased value for the grower, through the use of marketing and innovation.

WONZ have intangible assets including brands, trademarks and licence arrangements.

Management have reassessed the carrying value of licence fees, and as a result of doubt over the ability to commercialise this technology, licence fees of \$0.2m have been fully impaired.

The key procedures we performed included:

- Challenging the appropriateness of the model and key assumptions used to support the carrying value, including discount rates and future financial performance;
- Retrospective assessment of prior year assumptions to actual 2020 financial performance;
- Comparison of the calculated value in use against the associated carrying amount; and
- Assessing the appropriateness, sufficiency, and clarity of intangible asset related disclosures within the Group financial statements.



The key audit matter

How the matter was addressed in our audit

The assessment of carrying value is considered a key audit matter due to the level of judgement by management particularly with regard to future sales prices and volume demand from new technologies.

We consider that the assessment of the carrying value of intangible assets has appropriately considered the inherent uncertainties and key judgments.

Other information

The Directors, on behalf of the Group, are responsible for the other information included in the entity's Annual Report. Other information includes the Directors' report and disclosures relating to statutory information. Our opinion on the consolidated financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Use of this independent auditor's report

This independent auditor's report is made solely to the shareholders as a body. Our audit work has been undertaken so that we might state to the shareholders those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholders as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.



Responsibilities of the Directors for the consolidated financial statements

The Directors, on behalf of the company, are responsible for:

- the preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a consolidated set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



x Auditor's responsibilities for the audit of the consolidated financial statements

Our objective is:

- to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of these consolidated financial statements is located at the External Reporting Board (XRB) website at:

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/>

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Peter Taylor.

For and on behalf of

A handwritten signature in blue ink that reads 'KPMG'.

KPMG
Christchurch

27 October 2020